COUNTY OF PLACER

OFFICE OF AUDITOR-CONTROLLER

KATHERINE J. MARTINIS, CPA
Auditor-Controller
E-mail: kmartini@placer.ca.gov

ANDREW C. SISK, CPA
Assistant Auditor-Controller
E-mail: asisk@placer.ca.gov

December 23, 2009

To the Board of Supervisors and Citizens of Placer County:

State law requires that all general-purpose local governments publish within six months of the close of each fiscal year a complete set of financial statements presented in conformity with generally accepted accounting principles (GAAP) and audited in accordance with generally accepted auditing standards by a firm of licensed certified public accountants. Pursuant to that requirement, we hereby issue the comprehensive annual financial report (CAFR) of the County of Placer (County) for the fiscal year ended June 30, 2009.

This report consists of management's representations concerning the finances of the County. Consequently, management assumes full responsibility for the completeness and reliability of all of the information presented in this report. To provide a reasonable basis for making these representations, management of the County has established a comprehensive internal control framework that is designed both to protect the County's assets from loss, theft or misuse and to compile sufficient reliable information for the preparation of the County's financial statements in conformity with GAAP. Because the costs of internal controls should not outweigh their benefits, the County's comprehensive framework of internal controls has been designed to provide reasonable, rather than absolute, assurance that the financial statements will be free from material misstatement. As management, we assert that, to the best of our knowledge and belief, the information contained herein is complete and reliable in all material respects.

The County's financial statements have been audited by Macias Gini & O'Connell LLP, a firm of licensed certified public accountants. The goal of the independent audit was to provide reasonable assurance that the financial statements for the fiscal year ended June 30, 2009 are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditor concluded, based upon the audit, that there was a reasonable basis for rendering an unqualified opinion that the County's basic financial statements for the fiscal year ended June 30, 2009, are fairly presented in conformity with GAAP. The independent auditor's report is presented as the first component of the financial section of this report.

The independent audit of the financial statements of the County is part of a broader, federally mandated "Single Audit" designed to meet the special needs of federal grantor agencies. The standards governing Single Audit engagements require the independent auditor to report not only on the fair presentation of the financial statements, but also on the audited government's internal controls and compliance with legal requirements involving the administration of federal awards. These reports are available in the County's separately issued Single Audit Report.

2970 Richardson Drive / Auburn, California 95603 / (530) 889-4160 / Fax (530) 889-4163
Internet Address: http://www.placer.ca.gov / email: auditor@placer.ca.gov

GAAP requires that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement MD&A and should be read in conjunction with it. The County's MD&A can be found immediately following the report of the independent auditors.

Profile of the Government

The County is located 80 miles northeast of San Francisco, and Auburn, the County seat, is located 120 miles southwest of Reno. The County encompasses over 1,431 square miles of land and water and serves a population of 339,500. There are six incorporated cities and towns located within the County: Auburn, Colfax, Lincoln, Loomis, Rocklin and Roseville. The Sierra Nevada Mountains, home to the 1960 Winter Olympics and the largest concentration of world class ski resorts in the Western United States, provide an abundance of year-round recreational and cultural opportunities to the residents of the County.

County government functions as a local government body to serve the needs of its residents. As geographical and political subdivisions of the state, counties serve a dual role, providing municipal services in the unincorporated areas and acting as administrative agents for state and federal government programs and services. As a general-law county, Placer County is bound by state law as to the number and duties of county elected officials. Placer County has five districts that are approximately equal in population with boundaries adjusted every ten years following the federal census. Policymaking and legislative authority are vested in the County Board of Supervisors that consists of an elected supervisor from each of the five districts. Supervisors are elected to four-year staggered terms in even-year elections. The County has six elected department heads: Assessor, Auditor-Controller, County Clerk-Recorder, District Attorney, Sheriff-Coroner-Marshall, and Treasurer-Tax Collector.

The County provides a wide range of services to its residents, including public protection services, medical and health services, public assistance programs, sanitation services, the construction and maintenance of roads and infrastructure, environmental services, parks, libraries, and a variety of other general governmental services. Every resident of the County, directly or indirectly, benefits from these services. Most services performed by the County are provided for all residents, regardless of whether those residents live in cities or unincorporated areas. A major challenge to the County in future years will be the maintenance of these services to the extent feasible within the County's financial resources.

The financial reporting entity (County of Placer) includes all the funds of the primary government (the County of Placer as legally defined), as well as all of its component units. Blended component units, although legally separate entities, are considered to be part of the primary government's operations for financial reporting purposes, as required by GAAP. The following component units are blended: County Service Areas, Sewer Maintenance Districts, Newcastle and Penryn Lighting Districts, Redevelopment Agency of Placer County, North Lake Tahoe Public Financing Authority, Placer County Public Financing Authority, Gold Country Settlement Funding Corporation, In-Home Support Services Public Authority and Placer County Housing Authority. The First 5 Placer Children and Families Commission is included in this report as a discretely presented component unit.

Additional information on all of these entities can be found under Note 1 in the Notes to the Financial Statements.

In accordance with the provisions of California Government Code Sections 29000 through 29143 inclusive, commonly known as the County Budget Act, the County prepares and adopts a budget for each fiscal year. Activities of the General Fund, Special Revenue Funds, Capital Projects and Debt Service Funds are included in the annual budget. The legal level of budgetary control (that is, the level at which expenditures cannot legally exceed the appropriated amount) is established at the departmental level except for capital assets, which are controlled at the line item level. The budgeted expenditures become law through the passage of an Appropriation Resolution. This resolution constitutes the authorized spending threshold for the fiscal year, and cannot be exceeded except by subsequent amendment of the budget by the Board of Supervisors. In the governmental funds, an encumbrance system is used to ensure effective budgetary control and to enhance cash planning and control. Encumbrances outstanding at June 30 are reported as reservations of fund balance.

Factors Affecting Financial Condition

State Government: The County is a political subdivision of the State of California and as such, its government is subject to State subventions and regulations. Therefore, the County's financial health is tied closely to the financial condition of the State government. California has been hard hit by the real estate collapse, is losing jobs at a significant rate and is experiencing a decline in economic output. In order to address this fiscal crisis, which comes on top of an on-going structural deficit, the state continues to reduce funding to counties for mandated services. The current state budget reduced funding in the Health and Human Services area by approximately $7.0 million. Resolution of the on-going state deficit, estimated at $18.0 billion, does not appear likely without having a significant financial impact to local governments.

Placer County Economy: Placer County showed large declines in key economic areas during fiscal year (FY) 2008-09. The County's unemployment rate increased from 6.3% to 11.4% through June 2009; housing starts decreased 24% from July 2008 to June 2009; sales tax decreased 6% from the prior year; over 62,000 property values, representing 35% of the properties in the County, have been temporarily reduced due to the dramatic housing decline. In FY 2009-10, the secured property tax revenue is expected to decline by 2.6%. In addition, sales tax is expected to decline an additional 10%, including Public Safety Sales Tax.

Over the past few years, the County has prepared for looming fiscal challenges in both our state and national economy in regards to impacts to local government. The County has taken aggressive budgetary action to ensure it lives within its means. Some of these actions include the minimal use of reserves in order to maintain them at prudent levels, one-time reductions in charges, restricting program expansion, ongoing budget reductions, and reductions in labor costs. Reductions in labor costs were achieved through restrictive hiring practices and requiring 4 days of mandatory unpaid time off. In FY 09-10, the hiring freeze continues and mandatory unpaid time off is increased to 12 days. These steps, combined with other cost saving measures, are designed to provide more fund balance and reduce future costs in light of the anticipated funding constraints Placer County will face in FY 09-10 and beyond.

Long-term Financial Plans: Strategic efforts over the last several years by the Board of Supervisors have positioned the County to begin replacing its aging infrastructure and plan for program and service delivery growth. Project priority is determined by whether a project is identified in the Capital Improvements Master Plan, mitigates health and safety needs, improves departmental operations, or preserves and extends the life of an existing county facility. Facility replacement and rehabilitation needs identified for the next 10 years are projected to be approximately $403 million. A long range plan for financing the facility needs has been developed that utilizes a combination of accumulated reserves, capital facility impact fees (assessed on new development that occurs within cities and the unincorporated portions of the County), Securitized Master Settlement Agreement revenue, prudent debt issuance and community financial support.

The County is committed to building a strategic reserve equal to 5% of the annual operating budget, which in FY 09-10 would be $18.1 million. This reserve is designed to be used to maintain services during a slow economy when the County's revenues have declined or during an emergency. As of June 30, 2009, the County has set aside $16.2 million.

Cash Management Policies and Procedures

Except for amounts held with trustees under bond indenture or other restrictive agreements, the County's cash and investments are invested by the County Treasurer. The Treasury Oversight Committee has regulatory oversight for all funds deposited in the Treasury Pool. Such amounts are invested in accordance with investment policy guidelines established by the County Treasurer and reviewed by the Board. The objectives of the policy are, in order of priority, safety of principal, liquidity, and yield. The policy addresses the soundness of financial institutions in which the County will deposit funds, types of investment instruments permitted by the California Government Code, and the percentage of the portfolio that may be invested in certain instruments with longer terms to maturity.

Risk Management

The County is self-insured for unemployment, general liability, worker's compensation, and certain employee health coverages. The County records estimated liabilities for such claims filed or expected to be filed for incidents that have occurred. The self-insured amounts for all types of losses except unemployment and dental and vision coverage are supplemented with insurance policies (refer to Note 12). County officials believe that assets of the Self Insurance Internal Service Fund, together with funds to be provided in the future, will be adequate to meet all of the claims related to these liabilities as they come due.

Awards and Acknowledgements

The Government Finance Officers Association (GFOA) of the United States and Canada awarded the Certificate of Achievement for Excellence in Financial Reporting to the County of Placer for its CAFR for the fiscal year ended June 30, 2008. This is the eighth consecutive year that the County received this award. The Certificate of Achievement is a prestigious award recognizing conformance with the highest standards for preparation of state and local government financial reports. In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized CAFR, the contents of which conform to program standards and satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current CAFR continues to meet the Certificate of Achievement Program's requirements and we are applying for the Certificate again this year.

The preparation of the CAFR and its timely issuance is the result of a concentrated and dedicated effort by the entire Auditor-Controller staff. I am especially grateful to the members of my staff for their special efforts, particularly Andrew Sisk and Sandra Bozzo. In addition, I would like to thank the Board of Supervisors and the County Executive for their leadership and actions that ensure the general fiscal health and integrity of the County.

Respectfully submitted,

Katherine J. Martinis

Katherine J. Martinis, CPA
Auditor-Controller